

Message Text

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AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AEC GERMANTOWN 986

USMISSION IAEA VIENNA

C O N F I D E N T I A L EC BRUSSELS 6806

E.O.11652: GDS

TAGS: TECH, EEC

SUBJECT: EC COMMISSION RECOMMENDATION ON EC ENRICHED URANIUM CAPACITY

REF: A. EC BRUSSELS 6731 B. EC BRUSSELS 6778

1. SUMMARY: FROM INFORMATION NOW AVAILABLE TO US, IT APPEARS THAT THE "BUY-EUROPEAN" ASPECT OF THE COMMISSION'S RECOMMENDATION TO THE COUNCIL ON URANIUM ENRICHMENT WOULD PROVIDE FOR A LESS THAN MANDATORY EC PREFERENCE. HOWEVER, THE EFFECT ON US SALES, IN ANY CASE, WOULD PROBABLY BE THE SAME, I.E., SOME REDUCTION IN OUR PREDOMINANT SUPPLIER POSITION. AS PREVIOUSLY CONFIDENTIAL

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REPORTED, STOCKPILING OF ENRICHED URANIUM IS ANOTHER ASPECT OF THE COMMISSION'S PROPOSALS. END SUMMARY.

2. THE COMMISSION CONTINUES TO HOLD THE DETAILS OF ITS

PROPOSALS TO THE COUNCIL CONCERNING ENRICHED URANIUM VERY CLOSELY. HOWEVER, IN RESPONSE TO OUR INQUIRIES, SIMONET'S OFFICE AUTHORIZED ARAMAND BARUFFA, A SPECIAL ADVISER TO DIRECTOR GENERAL FOR ENERGY, SPAAK, TO BRIEF US ON THE MATTER.

3. BUY-EUROPEAN. BARUFFA SAID THAT THE COMMISSION'S RECOMMENDATIONS SUGGEST THAT THE EUROPEAN UTILITIES SHOULD GIVE PREFERENCE TO EUROPEAN ENRICHMENT PRODUCERS. THIS PREFERENCE WOULD BE GRANTED FOR THE SHORTEST POSSIBLE TIME (I.E., FOR A PERIOD OF FROM FIVE TO SEVEN YEARS UNTIL 1985 AT THE LATEST) AND ONLY IF ECONOMIC CONDITIONS WERE EQUAL. THE EURATOM SUPPLY AGENCY WOULD BE DIRECTED TO SUPPORT THIS EFFORT WITH A POLICY OF SUGGESTING THAT EUROPEAN PURCHASES BE RESTRICTED TO EUROPEAN PRODUCERS, IN LINE WITH THE AUTHORITY THE SUPPLY AGENCY HAS IN THE SECOND PARAGRAPH OF ARTICLE 65 OF THE EURATOM TREATY. (BARUFFA POINTED OUT THAT IT WAS FOR EXACTLY SUCH A PURPOSE THAT THIS TREATY PROVISION WAS ORIGINALLY DRAFTED.)

4. IN EXPLAINING THE REASONS FOR THE COMMISSION'S PROPOSALS REGARDING PREFERENTIAL SUPPORT OF A EUROPEAN CAPACITY, BARUFFA SAID THE COMMISSION'S RECOMMENDATIONS ARE BASED ON THE PRINCIPLE THAT EUROPE'S REQUIREMENTS FOR ENRICHED URANIUM WOULD BEST BE SERVED BY HAVING A MULTIPLICITY OF SECURE AND COMPETITIVE SOURCES, ALTHOUGH IT WILL REQUIRE SEVERAL YEARS TO REACH THAT SITUATION. A SECOND GENERAL PRINCIPLE BEHIND THE COMMISSION'S PROPOSALS IS THAT ANY SUPPORT GIVEN TO THE NEW EUROPEAN CAPACITY SHOULD NOT CREATE A RISE IN WORLD PRICES OF ENRICHMENT SERVICES.

5. BARUFFA SAID THAT THE SAME FACTORS WHICH LED THE USAEC TO ITS NEW APPROACH TO ENRICHMENT SERVICES CONTRACTS ARE NOW FACING THE EUROPEANS. THE DIFFERENCE IS THAT THE US ALREADY HAS THE ENRICHMENT MARKET AND EUROPE MUST NOW ATTEMPT TO GAIN A PART OF THAT MARKET. THE US WITH ITS PRESENT DOMINANT MARKET POSITION STILL FELT IT NECESSARY
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TO MAKE CHANGES IN ITS CONTRACT PROCEDURES IN ORDER TO ENSURE LONG-TERM PURCHASE COMMITMENTS. EUROPE WHICH IS NOW ATTEMPTING TO ESTABLISH A SIMILAR ENRICHING CAPACITY NEEDS SOME COMPARABLE COMMITMENTS, AND THE ANSWER, BARUFFA SAID, IS OBVIOUSLY TO GRANT SOME KIND OF COMMUNITY PREFERENCE. THE RESULTING DECISION WAS EXTREMELY DIFFICULT FOR THE COMMISSION AND IT WAS AWARE THAT ITS RECOMMENDATIONS WOULD CAUSE THE US SOME PROBLEMS. THE COMMISSION'S TRADE PHILOSOPHY REMAINS A LIBERAL ONE, HOWEVER, BARUFFA EMPHASIZED, BUT THE COMMISSION HAD TO DO SOMETHING FOR AN ESSENTIAL INFANT INDUSTRY SUCH AS THT OF ENRICHED URANIUM. HE STRESSED THAT THE COMMISSION RECOMMENDED THAT THIS RESTRICTIVE TRADE PRACTICE (I.E., EC PREFERENCE FOR ENRICHED

URANIUM) MUST BE SPECIFICALLY DESCRIBED AND LIMITED IN TIME(REF A).

6. COMMENT: WHILE THE COMMISSION PROPOSAL MAY CALL FOR A VOLUNTARY RATHER THAN A MANDATORY BUY-EUROPEAN POLICY, THE EFFECT ON EXCLUDING US SALES WOULD LIKELY BE THE SAME, PARTICULARLY IF THERE IS EC STOCKPILING (SEE BELOW). WHEN MANY UTILITIES ARE GOVERNMENT-OWNED OR SUPPORTED, IT IS UNILKELY THAT MEMBER STATE GOVERNMENTS WOULD NOT URGE THOSE UTILITIES TO BUY FROM THE EUROPEAN CAPACITY, ESPECIALLY IF THE MEMBER STATE GOVERNMENTS ARE ALSO BEING ASKED TO CONTRIBUTE PUBLIC FUNDS TO A STOCKPILING OPERATION. END COMMENT.

7. STOCKPILING. ON THIS POINT BARUFFA INDICATED THE COMMISSION IS AWARE OF THE POSSIBILITY OF OVERPRODUCTION BECAUSE OF THE MELDING TOGETHER OF THE TWO ENRICHMENT TECHNOLOGIES. THE COMMISSION HAS THREE RECOMMENDATIONS FOR AVOIDING OVERSUPPLY. FIRST, THE PRODUCERS USING THE TWO DIFFERENT ENRICHMENT TECHNOLOGIES SHOULD CONCERT AMONG THEMSELVES WHEN OVERPRODUCTION APPEARS LIKELY. SECOND, IF IN SPITE OF THIS CONCERTATION A DIFFERENCE DEVELOPS BETWEEN PROGRAMMED PRODUCTION AND ACTUAL DEMAND, IT IS UP TO THE PRODUCERS TO MAKE THE NECESSARY ADJUSTMENTS (BARUFFA POINTED TO THE POSSIBILITY OF ADJUSTMENT OF TAILS ASSAYS, WHICH CAN ACCOUNT FOR A PRODUCTION CUT OF UP TO FIFTEEN PERCENT). THIRD, IF SOME OVERPRODUCTION STILL RESULTS AFTER THESE FIRST TWO STEPS, THE SUPPLY AGENCY, ACTING UNDER THE PROVISIONS OF ARTICLE 72 OF THE EURATOM TREATY, MIGHT BE AUTHORIZED TO ASSIST THE UTILITIES TO PURCHASE, UP TO A CERTAIN

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LEVEL, SOME OF THE PRODUCTION OF THE EUROPEAN CAPACITY. THE COMMISSION PROPOSES THAT AN UPPER LIMIT OF 200 MILLION UNITS OF ACCOUNT BE PLACED ON THIS OPERATION: IT ESTIMATES THAT THIS LIMITATION WOULD MEAN IF EFFECT THAT APPROXIMATELY 5,000 TONS OF SEPARATIVE WORK WOULD BE THE LIMIT OF ANY SUCH STOCKPILING. IN ADDITION, THE COMMISSION SUGGESTS THAT IF THE UTILITIES THEMSELVES WISH TO DO SOME STOCKPILING THAT THEY DO SO IN CO-ORDINATION WITH THE SUPPLY AGENCY.

8. NON-EC PARTICIPATION. BARUFFA CONCLUDED HIS BRIEFING BY SAYING THAT THE COMMISSION PROPOSALS CLEARLY SUGGEST THAT THIS NEW ENRICHMENT CAPACITY BE ESTABLISHED WITHIN THE FRAMEWORK OF THE EUROPEAN COMMUNITIES. HOWEVER, GIVEN THE EMPAHSIS IN THE PROPOSALS ON DECISION-MAKING BY THE EUROPEAN NUCLEAR INDUSTRY, IT WOULD ALSO BE LEFT UP TO THAT INDUSTRY TO ESTABLISH ANY RULES FOR PARTICIPATION BY NON-COMMUNITY COUNTRIES. BARUFFA POINTED OUT COMMUNITY RULES ON THE ESTABLISHMENT OF THE JOINT ENTERPRISES WHICH WOULD PROBABLY BE REQUIRED BY SUCH AN UNDERTAKING CLEARLY PERMIT THE PARTICIPATION OF NON-EC MEMBER COUNTRIES.

9. BARUFFA REPEATED WHAT WE HAVE HEARD FROM OTHER SOURCES

REGARDING THE DIFFICULTY THE COMMISSION HAD IN REACHING ITS
DECISION. HE POINTED OUT THAT ALL 13 COMMISSIONERS PARTICIPATED
IN THE LENGTHY MEETINGS AND DISCUSSIONS ON THIS SUBJECT.
THE PROPOSALS ARE NOW BEFORE THE PERMANENT REPRESENTATIVES, WHO
HAVE NOT YET TAKEN ANY ACTION. THE ENERGY COUNCIL WHICH HAD
TENTATIVELY BEEN SCHEDULED FOR NOVEMBER 26, AND WHICH MIGHT
HAVE ADDRESSED THE ISSUE, HAS NOW BEEN POSTPONED. ALTHOUGH
THE DECEMBER 14-15 SUMMIT AT COPENHAGEN HAS NO FORMAL AGENDA,
BARUFFA SAID IT IS ASSUMED IN THE COMMISSION THAT ENERGY IN
GENERAL AND URANIUM ENRICHMENT IN PARTICULAR WILL BE ONE OF
THE ITEMS DISCUSSED AT THAT MEETING. GREENWALD

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